

**Texas Department of Banking  
Testimony**

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**Briefing Packet on Home Equity Lending Survey Results for The House  
Committee on Financial Institutions Randall S. James, Commissioner**

*Date: April 6, 2000*

**State Bank Participation in Home Equity Lending**

(Information derived from Banking Department Survey of state-chartered banks conducted in December 1999)

- Of our 375 state-chartered banks surveyed, 236, or 63%, responded
- 141 (or 60%) of our banks report making home equity loans
- Of the 236 respondent banks, all banks with over \$500 million in total assets (3) reported making home equity loans
- All but one bank with assets between \$200 and \$500 million (16) reported making home equity loans
- 120 (or 56%) of our respondent banks under \$200 million in total assets make these loans
- Respondent banks reflect aggregate home equity loans outstanding of over \$213 million as of September 30, 1999
- 53 banks report home equity loan portfolios of over \$1 million; nine of these reported portfolios in excess of \$5 million

**Banks Continue to Take a Cautious Approach**

- Of the 141 state banks reporting that they make home equity loans, only one characterized their marketing approach as aggressive.
- 67 banks make the loans on a case-by-case basis, 52 offer home equity loans the same as their other loan products, and 20 make the loans only to existing customers
- Very few banks (10) indicated plans to significantly increase their home equity loan portfolio in the next year
- The relative volume of home equity loans in any single institution is quite low
- No activity in making reverse mortgages is being seen

**Aspects of the Constitutional Amendment Bankers Would Most Like to See Changed**

| <b>Recommended Change</b>         | <b>#of Responses</b> | <b>% of Banks Making Loans</b> |
|-----------------------------------|----------------------|--------------------------------|
| Remove the restriction that makes | 19                   | 13.5%                          |

|  |    |       |
|--|----|-------|
| agricultural property ineligible   |    |       |
| Remove provision which allows no personal liability to borrower beyond the homestead                                 | 19 | 13.5% |
| Remove the provision requiring judicial foreclosure to obtain property   | 13 | 9.2%  |
| Remove provision that results in forfeiture of all principal and interest if lender fails to comply with obligations | 10 | 7.1%  |

### **Are Restrictions Limiting Home Equity Loan Availability?**

- 40% of our bankers do not offer this product
- 110 bankers responded that administration of this portfolio was more difficult than their other loan products
- 72% of metropolitan area banks offer the product; only 51% of rural area banks do (ineligibility of agricultural property; 1-acre limit)
- Only one bank reported that the judicial foreclosure process had been initiated on a home equity loan
- No losses have been reported as yet under the provision for forfeiture of principal and interest for failure of the banker to comply with all obligations under the Constitutional Amendment

### **Conclusions**

- The Constitutional Amendment has opened the door to over \$213 million in loans by state chartered banks previously unavailable in Texas
- State banks are only one source of funding for home equity loans. Volumes originated by national banks and nonbank home equity lenders likely far exceed those by state banks
- Availability of home equity loan funding through state banks may increase significantly if restrictive provisions are removed
- Any increase in home equity lending volumes from rural banks, resulting from the recent increase in the one-acre limitation to ten acres, is unknown at this time

### **Survey on Home Equity Lending**

The Department of Banking is seeking to compile comprehensive data on the state's home equity lending activities. **Please complete the following survey questions and return by fax or mail by December 15, 1999 to the attention of Ryan Eckstein.** Specific bank information is confidential by law. Aggregate information may be published. Thank you in advance for your cooperation.

1. Does your bank engage in home equity lending? Yes | No

If "No", you may skip the remaining questions. Please fill out bank name and city.

2. If "Yes" to Question 1, check the description below that best approximates your bank's strategy:

- Aggressively marketing the product
- Offering the product just the same as existing loan products
- Consider requests from all individuals on a case-by-case basis
- Consider requests from existing customers only

3. If not aggressively marketing the product, do you have plans to significantly increase this portfolio in the next year? Yes | No

4. If "Yes" to Question 3, does your loan policy address home equity lending? Yes | No

5 Do you have written guidelines/procedures in place to ensure compliance with Section 50, Article XVI of the Texas Constitution? Yes | No

6 How would you compare the administration requirements related to home equity loans to your other loan products?

More difficult  About the same  Less difficult

7. As of the last quarter-end (date) \_\_\_\_\_, your bank had \_\_\_\_\_ (#) of home equity loans, for a total dollar volume of \$\_\_\_\_\_ representing \_\_\_\_\_ % of consumer loans, and \_\_\_\_\_ % of total loans.

8. Has your bank charged-off either principal or interest on any home equity loan? Yes | No  
If "Yes", please briefly explain the circumstances.

\_\_\_\_\_  
\_\_\_\_\_

9. Has your bank foreclosed on any properties under the home equity lending rules? Yes | No

If "Yes", how many? \_\_\_\_\_

What one provision in the home equity Constitutional Amendment would you most like to see changed?

\_\_\_\_\_

Bank Name: \_\_\_\_\_

City: \_\_\_\_\_

Individual completing survey: \_\_\_\_\_

Date: \_\_\_\_\_